



Patrick W. Henning, Director
July 14, 2008
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Arnold Schwarzenegger
Governor

Mr. Stephen G. Harding, Executive Director
Santa Ana Workforce Investment Board
20 Civic Center Plaza (M-25)
Santa Ana, CA 92702

Dear Mr. Harding:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2007-08

This is to inform you of the results of our review for Program Year (PY) 2007-08 of the Santa Ana Workforce Investment Board's (Santa Ana WIB)'s Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Jennifer Leeper from February 25, 2008 through February 29, 2008. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, and contract terms and agreements and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by the Santa Ana WIB with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2007-08.

We collected the information for this report through interviews with representatives of the Santa Ana WIB, a review of applicable policies and procedures, and a review of documentation retained by the Santa Ana WIB for a sample of expenditures and procurements for PY 2007-08.

We received your response to our draft report on May 23, 2008, and reviewed your comments and documentation before finalizing this report. Because your response

adequately addressed finding number one cited in the draft report, no further action is required and we consider the issue resolved. Your response also adequately addressed findings two and three cited in the draft report. However, these issues will remain open until we verify the implementation of your stated corrective action plan during a future onsite review. Until then, these findings are assigned Corrective Action Tracking System (CATS) numbers 80096 and 80097.

BACKGROUND

The Santa Ana WIB was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2007-08, the Santa Ana WIB was allocated: \$834,766 to serve 176 adult participants; \$1,241,367 to serve 157 youth participants; and \$391,299 to serve 175 dislocated worker participants.

For the quarter ending December 31, 2007, the Santa Ana WIB reported the following expenditures and enrollments for its WIA programs: \$35,738 to serve 116 adult participants; \$0 to serve 122 youth participants; and \$108,333 to serve 157 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, the Santa Ana WIB is meeting applicable WIA requirements concerning financial management, we noted instances of noncompliance in the following areas: salary accruals and oversight/monitoring. The findings that we identified in these areas, our recommendations, and the Santa Ana WIB's proposed resolution of the findings are specified below.

FINDING 1

Requirement: 29 CFR 97.20(b)(1) states, in part, that financial reporting must be accurate, current, and complete.

20 CFR 667.300(c) states, in part, that reported expenditures and program income must be on the accrual basis of accounting and cumulative by fiscal year of appropriation.

Observation: The Santa Ana WIB reports accruals for individual training accounts, office expenses, invoices from service providers, supportive services, and travel costs, but does not report payroll accruals on its quarterly WIA expenditure reports. Specifically, there are two pay periods in one month. Staff closes its accounting books for the first pay period on the 20th and closes its accounting books for the second pay period on the eighth of the

following month without accruing the costs for the second pay period of the third month for each quarter.

Recommendation: We recommended that the Santa Ana WIB provide the Compliance Review Division (CRD) with a corrective action plan (CAP), including a timeline, to report salary accruals quarterly.

**Santa Ana WIB
Response:**

The Santa Ana WIB stated that payroll for City personnel is paid twice a month: the 1st through the 15th is paid on the 20th of the month and the 16th through the last day of the month is paid on the following 5th of the month. Payroll is posted to the accounting system as of the last date of the pay period. Thus, the payroll for the pay period ending the 15th is posted as of the 15th; the payroll for the pay period ending the last day of the month is posted as of the last day of the month. The books are closed around the 8th working day of the following month. This closing occurs after the payroll for the end of the month has been posted. Therefore, no accruals of payroll are necessary because all payroll costs have been accounted for at the time the books are closed. The Santa Ana WIB also provided a copy of the accounting system posting payroll to the One Stop Administration account.

State Conclusion: We consider this finding resolved.

FINDING 2

Requirement: 20 CFR Section 667.410 states, in part, that recipients and subrecipients must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors to determine whether or not there is compliance with provisions of WIA and other laws and regulations.

WIAD00-7 states, in part, that the oversight and monitoring of all subrecipients require a standardized review methodology resulting in written reports which record finding, any needed corrective actions, and due dates for the accomplishment of corrective actions. Additionally, the monitoring of subrecipients require systematic follow-up to ensure that necessary corrective action is completed.

Observation: As of February 25, 2008, the Santa Ana WIB has not issued two PY 2006-07 subrecipient monitoring reports and/or completed systematic follow-up for four other subrecipients. Specifically, the Santa Ana WIB has not issued an initial report to Orangewood Children's Foundation and the City of Anaheim. Additionally, the

Santa Ana WIB issued an initial report with findings to California Hispanic Commission--La Familia (CHCADA), Orange County Children's Therapeutic Arts Center (OCTAC), Christian Latino Youth (RYTHMO), and the Orange County Youth Commission. However, a response was provided by CHCADA and the Orange County Youth Commission on November 8, 2007 and November 16, 2007, respectively, but the Santa Ana WIB did not issue a follow-up report or letter stating whether or not the findings were resolved. Finally, OCTAC and RYTHMO have not submitted a response to the initial report and therefore, no follow-up report was completed for these two monitoring reports.

Recommendation: We recommended that the Santa Ana WIB provide CRD with a CAP stating how it will ensure, in the future, that monitoring reports are issued timely and that the Santa Ana WIB performs follow-up on all monitoring report findings. Additionally, we recommended that the Santa Ana WIB provide CRD with a copy of the PY 2006-07 monitoring reports when they are completed.

**Santa Ana WIB
Response:**

The Santa Ana WIB stated that the W/O/R/K Center staff is in the process of following up with the various service providers on findings and recommendations made during PY 2006-07 monitoring. Staff is also monitoring the providers for PY 2007-08 which will allow for follow-up and resolution of outstanding issues. The Santa Ana WIB also stated that future monitoring schedules will be established to allow adequate time for report writing during the monitoring season. A schedule of completed reports will be reviewed by the W/O/R/K Center Coordinator to ensure that all required monitoring and reports will be completed by the end of each fiscal year as required by the Santa Ana Workforce Investment Board Monitoring Policies and Procedures.

State Conclusion: The Santa Ana WIB's stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future onsite visit, the Santa Ana WIB's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 80096.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, Santa Ana WIB is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of equipment/supply inventory. The finding that we identified in this area, our

recommendation, and Santa Ana WIB's proposed resolution of the finding is specified below.

FINDING 3

Requirement: 29 CFR 97.20(b)(3) states, in part, that grantees and subgrantees must maintain effective control and accountability for all property and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

29 CFR 97.32(d)(1)(3) states, in part, that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. In addition, a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.

Observation: To test the Santa Ana WIB's control over and accountability for its property, we selected twelve pieces of property/equipment to physically verify the location, safeguards, and use of the equipment/supplies. We found the following:

- We were unable to locate a Cabletron 2200/Ethernet smartswitch valued at \$3,197.51 that was listed on the inventory log as being at the 200 side of the One-Stop Center. The Santa Ana WIB staff found a similar item but the property tag number and serial number did not match the property log.
- We were unable to locate a server valued at \$14,702.72 that was listed on the inventory log as being at the City Hall Basement. Staff stated that the server was actually at the One-Stop Center. We could not locate it at either locations. However, we found a server staff thought was the correct one but the serial number did not match the inventory log.
- We were unable to locate a swipe card system valued at \$5,522.48 that was listed on the inventory log as being at the 220 side of the One-Stop Center. Additionally, staff stated that this system had been replaced by a new system that is

currently being used in the One-Stop Center. This new system has not been added to the property inventory log.

- We were unable to locate two Netserver valued at \$4871.38 each that were listed on the inventory log as being at the City Hall. The Santa Ana WIB's staff found two unmarked servers in the city hall basement but was unable to match the servers to the inventory log because the log was missing the serial numbers associated with the servers.

Recommendation: We recommended that the Santa Ana WIB provide CRD with documentation demonstrating the location and use of the Cabletron 2200/Ethernet smartswitch, server, and Netserver. Additionally, we recommended that the Santa Ana WIB provide the disposition data for the old swipe card system. Further, we recommended that the Santa Ana WIB add the new swipe card system to its inventory log. Finally, we recommended that the Santa Ana WIB provide CRD with a CAP to ensure that, in the future, the Santa Ana WIB's property management system maintains effective control over and accountability for property to ensure it is adequately safeguarded and used solely for authorized purposes.

**Santa Ana WIB
Response:**

The Santa Ana WIB stated that staff has been working with the Information Technology (IT) staff at City Hall to resolve the equipment/supply inventory issues. The following information was obtained:

- The Cabletron 2200/Ethernet smartswitch listed on the property log could not be located by the IT staff. It is likely, given the date of purchase, that the switch has been surplus, though IT staff was unable to locate any surplus paperwork. Instead, the Santa Ana WIB substituted another Ethernet smartswitch that had no property tag to replace the switch not found. This switch was tagged and added to the property log.
- The switch that is currently in the computer room, but has no property tag attached has been tagged and added to the property log, replacing tag #73153. The smartswitch that was located in Suite 220 has been returned to the computer room in Suite 200 and added to the property log.
- The server, property tag #74330, serial number US1113121A, was down in the basement when staff tried to locate it during

the monitoring visit. Unfortunately, the serial number on the property list had an incorrect letter at the end. The "A" should have been a "4". The serial number was corrected and a picture of the server and property tag was provided.

- The bar code reader (tag #132462) and two scanning wands were located for the Track It swipe system. The bar code reader was added to the property list. However, the CD Rom with property tag #74341 could not be located. The current tracking swipe system was added to the property list. Property tag numbers 132488, 132489, and 132490 are indicated at the bottom of the inventory log.
- The two Netserver were located in the IT staff's storage area at City Hall. Because the property tags were missing from the equipment, two new tags were attached. The Santa Ana WIB provided an updated copy of the inventory log.

The Santa Ana WIB also stated that any movement of computer related equipment by IT staff, W/O/R/K Center staff, or partners will be reported to the Workforce Investment Board (WIB) staff in writing noting the property tag number, serial number, old location, new location of the equipment, and name of the user. The WIB staff will then update the property log to record the changes. Additionally, all computer related equipment that is to be surplus will have paperwork prepared by the W/O/R/K Center staff. Staff will complete the paperwork noting the account number to be charged back for any revenue generated by the sale of the equipment. The paperwork will be sent to the WIB office so the property log can be updated and copy of the updated property log will be maintained at the W/O/R/K Center.

State Conclusion: Based on Santa Ana WIB's response, we cannot resolve this issue at this time. It is the Santa Ana WIB's responsibility to track and account for all items purchased. Therefore, the action taken does not address the finding that the Santa Ana WIB has not been able to locate its property. The CD Rom with acquisition cost \$5,522.48 referenced above, could not be located, yet no response or action was provided. Additionally, the policy stated in the Santa Ana WIB's response should include procedures for items not located or lost. We recommend that the Santa Ana WIB provide CRD with a CAP stating how it will account for the pieces of equipment/supplies that could not be located and provide notification when these pieces have been found. This issue has been assigned CATS number 80097.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Division your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than August 11, 2008.

Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Division
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is the Santa Ana WIB's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain the Santa Ana WIB's responsibility.

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Mr. Jim Tremblay at (916) 654-7825 or Ms. Jennifer Leeper at (916) 653-7802.

Sincerely,



JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Division

cc: Shelly Green, MIC 45
Jose Luis Marquez, MIC 50
Norma McKay, MIC 50
Gilbert von Studnitz, MIC 50